

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

MAJOR, MORRISON & DAVID
Certified Public Accountants

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION

June 30, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Officers and Board of Directors
Pointe Coupee Electric Membership Corporation
New Roads, Louisiana

We have audited the accompanying financial statements of Pointe Coupee Electric Membership Corporation (a Cooperative), which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of revenue and patronage capital, comprehensive income, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

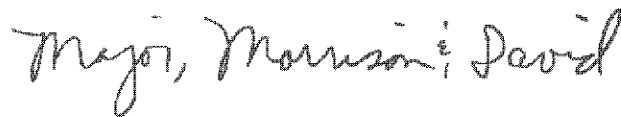
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pointe Coupee Electric Membership Corporation as of June 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2014, on our consideration of Pointe Coupee Electric Membership Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pointe Coupee Electric Membership Corporation's internal control over financial reporting and compliance.

Other Reporting Required by Regulatory Requirements

In accordance with 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, we have also issued our report dated August 25, 2014, on our consideration of Pointe Coupee Electric Membership Corporation's compliance with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as they relate to accounting matters. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, insofar as it relates to accounting matters for electric borrowers. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. That report is an integral part of an audit performed in accordance with 7 CFR Part 1773 in considering Pointe Coupee Electric Membership Corporation's compliance as they relate to accounting matters.

A handwritten signature in dark ink, reading "Major, Morrison & David". The script is cursive and fluid, with the first letters of each word being capitalized and prominent.

Major, Morrison & David
New Roads, Louisiana
August 25, 2014

Pointe Coupee Electric Membership Corpor CORPORATION
BALANCE SHEETS
As of June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
ELECTRIC PLANT: (Note 2)		
In Service - at cost	\$ 43,574,767	\$ 41,176,273
Construction work in progress	457,337	504,173
	<u>44,032,104</u>	<u>41,680,446</u>
Less: accumulated depreciation	<u>(12,778,252)</u>	<u>(12,154,996)</u>
	<u>31,253,852</u>	<u>29,525,450</u>
OTHER ASSETS AND INVESTMENTS		
Non-utility property (net of accumulated depreciation of \$131,057 for 2014 and \$127,533 for 2013)	9,920	13,444
Postretirement benefit asset (Note 13)	37,281	528,935
Investments in associated organizations, at cost (Note 4)	1,183,794	1,135,488
	<u>1,230,995</u>	<u>1,677,867</u>
CURRENT ASSETS		
Cash and cash equivalents	438,170	670,895
Short-term investments (Note 4)	200,000	200,000
Accounts receivable (less provision for uncollectible accounts of \$28,625 in 2014 and \$23,985 in 2013)	1,463,961	1,609,091
Accounts receivable - unbilled	2,850,643	3,474,911
Materials and supplies (at average cost)	400,658	401,273
Prepayments	335,068	363,517
Other current and accrued assets	8,479	8,553
	<u>5,696,979</u>	<u>6,728,240</u>
DEFERRED DEBITS (Note 7)	<u>2,067,509</u>	<u>2,175,484</u>
	<u>\$ 40,249,335</u>	<u>\$ 40,107,041</u>

The accompanying notes are an integral part of this statement.

Pointe Coupee Electric Membership Corpor CORPORATION
BALANCE SHEETS
As of June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
EQUITIES AND LIABILITIES		
EQUITIES:		
Memberships	\$ 39,120	\$ 39,025
Accumulated other comprehensive income (Note 13)	37,281	528,935
Patronage capital (Note 8)	<u>17,014,243</u>	<u>16,328,724</u>
	<u>17,090,644</u>	<u>16,896,684</u>
LONG-TERM LIABILITIES:		
Long-term debt, less current maturities (Note 5)	19,268,227	18,713,332
Postretirement benefit obligation (Note 13)	<u>-</u>	<u>-</u>
	<u>19,268,227</u>	<u>18,713,332</u>
CURRENT LIABILITIES:		
Line of credit - note payable (Note 6)	450,000	750,000
Current maturities of long-term debt (Note 5)	1,334,084	1,323,526
Accounts payable - purchased power	1,105,962	1,206,750
Accounts payable - other	181,570	415,933
Customer deposits	437,375	423,905
Other current and accrued liabilities	<u>381,473</u>	<u>376,911</u>
	<u>3,890,464</u>	<u>4,497,025</u>
DEFERRED CREDITS		
	<u>-</u>	<u>-</u>
	<u>\$ 40,249,335</u>	<u>\$ 40,107,041</u>

The accompanying notes are an integral part of this statement.

Pointe Coupee Electric Membership Corpor CORPORATION
STATEMENTS OF REVENUE AND PATRONAGE CAPITAL
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES	\$ 22,300,916	\$ 21,887,179
OPERATING EXPENSES:		
Cost of power	13,406,429	13,039,262
Distribution operation	622,715	525,181
Distribution maintenance	2,618,082	2,338,068
Consumer accounts	942,996	895,769
Sales	22,472	28,477
Administrative and general	1,538,311	1,441,397
Depreciation and amortization	1,206,406	1,170,809
Taxes	421,840	398,012
	<u>20,779,251</u>	<u>19,836,975</u>
OPERATING MARGINS BEFORE FIXED CHARGES	1,521,665	2,050,204
FIXED CHARGES:		
Interest on long-term debt (Note 3)	<u>930,042</u>	<u>892,381</u>
OPERATING MARGINS AFTER FIXED CHARGES	591,623	1,157,823
CAPITAL CREDITS	<u>83,138</u>	<u>53,141</u>
NET OPERATING MARGINS	<u>674,761</u>	<u>1,210,964</u>
NONOPERATING MARGINS:		
Interest income	36,156	36,523
Other income	11	-
Other expense	(25,409)	(22,720)
	<u>10,758</u>	<u>13,803</u>
NET MARGINS	685,519	1,224,767
PATRONAGE CAPITAL - beginning of year	<u>16,328,724</u>	<u>15,103,957</u>
PATRONAGE CAPITAL - end of year	<u>\$ 17,014,243</u>	<u>\$ 16,328,724</u>

The accompanying notes are an integral part of this statement.

Pointe Coupee Electric Membership Corpor CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
NET MARGINS	\$ 685,519	\$ 1,224,767
OTHER COMPREHENSIVE INCOME		
Recognized actuarial gains/losses & net periodic benefit cost reclassification for postretirement benefit obligation (Note 13)	<u>(491,654)</u>	<u>444,787</u>
COMPREHENSIVE INCOME	<u>\$ 193,865</u>	<u>\$ 1,669,554</u>

The accompanying notes are an integral part of this statement.

Pointe Coupee Electric Membership Corpor CORPORATION
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margins	\$ 685,519	\$ 1,224,767
Adjustments to reconcile net margins to net cash provided (used) by operating activities:		
Depreciation and amortization	1,350,414	1,287,723
Bad debts	15,338	23,872
(Increase) decrease in:		
Accounts receivable	129,866	(93,467)
Unbilled receivable	624,268	(679,613)
Prepaid expenses	28,449	(21,296)
Materials and supplies	615	24,192
Deferred debits	107,975	(1,488,069)
Decrease (increase) in:		
Accounts payable	(335,151)	198,186
Other current and accrued liabilities	4,562	26,697
Deferred credits	-	-
Total adjustments	<u>1,926,336</u>	<u>(721,775)</u>
Net Cash Provided (Used) by Operating Activities	<u>2,611,855</u>	<u>502,992</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments in associated organizations	(48,306)	(27,921)
Proceeds from sale of investments	200,000	200,000
Construction and acquisition of plant	(3,075,292)	(1,764,453)
Purchase of investments	<u>(200,000)</u>	<u>(200,000)</u>
Net Cash Provided (Used) by Investing Activities	<u>(3,123,598)</u>	<u>(1,792,374)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	9,300,000	6,050,000
Repayment of line of credit	(9,600,000)	(6,200,000)
Proceeds from long-term debt	1,905,000	2,704,643
Repayment of long-term debt	(1,339,547)	(1,001,079)
Increase (decrease) in:		
Memberships issued	95	170
Customer deposits	13,470	45,750
Net Cash Provided (Used) by Financing Activities	<u>279,018</u>	<u>1,599,484</u>
NET INCREASE (DECREASE) IN CASH	(232,725)	310,102
CASH AT BEGINNING OF YEAR	670,895	360,793
CASH AT END OF YEAR	<u>\$ 438,170</u>	<u>\$ 670,895</u>
<u>Supplemental Disclosures</u>		
Cash Paid During the Year for:		
Interest	\$ 931,932	\$ 889,531
Noncash Investing & Financing Activities:		
Increase (decrease) in compensated absences	(11,656)	15,579
Postretirement benefits	491,654	(444,787)

The accompanying notes are an integral part of this statement.

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

Note 1-Summary of Significant Accounting Policies

A. Organization

Pointe Coupee Electric Membership Corporation (Cooperative) is an electric transmission and distribution cooperative. Its principal business activity is providing electric power to approximately 10,427 member-consumers over three parishes. The Cooperative is subject to the jurisdiction of the Louisiana Public Service Commission (LPSC) for ratemaking regulations.

B. Accounting and Records

The Cooperative maintains its records in accordance with the Uniform System of Accounts, prescribed for electric borrowers of the Rural Utilities Service (RUS).

C. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Cooperative considers all highly liquid debt instruments purchased with maturity of two months or less to be cash equivalents.

D. Short-Term Investments

Short-term investments consist of certificates of deposits with various maturity dates and are stated at cost, which approximates fair market value. The investments are held until each maturity date.

E. Accounts Receivable

The Cooperative uses the reserve method to account for uncollectible accounts. Accounts deemed uncollectible are written off yearly against the reserve.

F. Inventory

Inventory consists of materials and electrical supplies and is stated at average-cost.

G. Utility Plant

Utility plant is stated at original cost net of contributions. Such cost includes applicable supervisory and overhead costs. Expenditures for maintenance and repairs, which do not materially extend the life of assets, are included in operating expenses. Upon retirement or disposition, the recorded cost of depreciable plant and the cost of removal, net of salvage, are charged to accumulated depreciation.

Depreciation is computed using straight-line composite rates based upon the estimated useful lives of the various classes of assets.

H. Investments in Associated Organizations

Investments in capital term certificates, capital credit notes, and capital stock of associated organizations are stated at cost. Investments in patronage capital certificates of associated organizations are accounted for using the cost method plus allocated capital credits, which are assigned, to the Cooperative based on its patronage of the associated organizations.

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

I. Income Taxes

The Cooperative is exempt from income taxes under Section 501 (c)(12) of the IRS Code, since it receives more the 85% of its income from members. The statute of limitations for the examination of the Cooperative's income tax returns is generally three years from the due date of the tax returns including extensions. The tax Form 990s are prepared on a calendar basis. The tax years open for assessment are the years ending on or after December 31, 2010.

J. Revenue

Revenue is recognized based on monthly billings to consumers. The Cooperative accrues revenue related to energy consumed but not yet billed.

The Cooperative's rates include a power cost adjustment clause (PCA), which enables the Cooperative to pass through to consumers all fuel charges and non-fuel charges in the cost of power. The Cooperative's rates, including the PCA must be approved by the LPSC, which also retains jurisdiction to review the cooperative's PCA periodically to ensure that costs comply with their power purchase contracts and that their overall rates do not permit the over collection of costs.

K. Advertising Costs

Advertising costs are charged to operations when incurred. Total advertising expense for the years ended June 30, 2014 and 2013, was \$20,843 and \$22,918, respectively.

L. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

M. Reclassifications

Certain amounts as previously reported have been reclassified to conform to the June 30, 2014 presentation. The reclassifications had no effect on net margins or patronage capital.

Note 2-Utility Plant

The following are the major classes of utility plant as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Transmission plant	\$ 6,333,622	\$ 6,333,622
Distribution plant	33,395,825	31,177,289
General plant	<u>3,845,320</u>	<u>3,665,362</u>
Utility plant in service	43,574,767	41,176,273
Construction work in progress	<u>457,337</u>	<u>504,173</u>
	<u>\$ 44,032,104</u>	<u>\$ 41,680,446</u>

Depreciation and amortization expense totaling \$144,008 and \$116,914 for the years ended June 30, 2014 and 2013, respectively, are included in various expense accounts based on allocation of work order costs in accordance with RUS guidelines.

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

Annual average composite rates of depreciation used by the Cooperative during 2014 and 2013 are as follows:

	<u>Percent Per Year</u>
Distribution plant	1.80 to 4.40
Transmission plant	2.75
General plant	
Structures and improvements	2.00
Transportation equipment	7.00
Communications equipment	5.00
Office furniture and fixtures	10.00
Power-operated equipment	13.50
Other general plant	3.60

Note 3-Capitalization of Interest

The Cooperative's policy is to capitalize interest as a component of the cost of property, plant and equipment constructed for its own use with a contracted life of a year or more. The following is a schedule of interest components for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Interest capitalized	\$ -0-	\$ -0-
Interest deferred	-0-	-0-
Interest charged to operations	<u>930,042</u>	<u>892,381</u>
Total interest	<u>\$ 930,042</u>	<u>\$ 892,381</u>

Note 4-Investments in Associated Organizations and Short-term Investments

Investments in associated organizations consist of the following as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
National Rural Utilities Cooperative Finance Corporation:		
Capital Term Certificates	\$ 574,868	\$ 577,873
Patronage Capital	158,784	149,872
Member Capital Securities	100,000	100,000
Membership Fee	1,000	1,000
Patronage Capital Certificates:		
Association of Louisiana Electric Cooperatives, Inc.	3,641	3,641
Federal Rural Electric Insurance Corporation	153,737	127,412
National Information Solutions Co-op	55,029	48,727
GRESO- member fee	100	100
GRESO	75,158	72,964
ERMCO – member fee	100	100
NRTC	384	705
Co-Bank- member fee	1,000	1,000
Co-Bank	12,612	11,910
Arkansas Electric	<u>47,381</u>	<u>40,184</u>
	<u>\$ 1,183,794</u>	<u>\$ 1,135,488</u>

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

The Cooperative has adopted Financial Accounting Standards Board (FASB) –Accounting Standards Codification (ASC) 320, “Accounting for Certain Investments in Debt and Equity Securities.” In accordance with FASB ASC 320, the Cooperative has classified all short-term investments as held-to-maturity. Held-to-maturity investments are stated at amortized cost as the cooperative has the ability and intent to hold these investments to maturity. The cost of investments sold is based on the specific identification method. There were no sales or transfers of investments classified as held-to-maturity during the years ended June 30, 2014 and 2013, respectively.

Short-term investments classified as held-to-maturity and their maturities were as follows at June 30, 2014 and 2013:

At the balance sheet date of June 30, 2014:

	<u>Amortized Cost Basis</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Loss</u>	<u>Aggregate Fair Value</u>
Certificates of Deposit	\$ 200,000	\$ -0-	\$ -0-	\$ 200,000

Maturities of investments

	<u>Amortized Cost</u>	<u>Fair Value</u>
Less than one year	\$ 200,000	\$ 200,000

At the balance sheet date of June 30, 2013:

	<u>Amortized Cost Basis</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Loss</u>	<u>Aggregate Fair Value</u>
Certificates of Deposit	\$ 200,000	\$ -0-	\$ -0-	\$ 200,000

Maturities of investments

	<u>Amortized Cost</u>	<u>Fair Value</u>
Less than one year	\$ 200,000	\$ 200,000

Note 5- Long-Term Debt

Long-term debt consists of mortgage notes payable to RUS, NRUCFC, and The Federal Financing Bank (FFB). Notes payable to RUS consist of 3.7% to 5% mortgage notes payable in monthly and quarterly payments maturing in various years through 2041. Notes payable to NRUCFC consist of mortgage notes payable in quarterly payments bearing fixed interest rates of 2.25% to 7.025% maturing in various years through 2027. Notes Payable to FFB consists of mortgage notes payable in quarterly payments bearing fixed rates of 2.264% to 5.410%. It is estimated that principal payments to RUS, NRUCFC, and FFB in the next twelve months will be approximately \$467,293, \$504,300 and \$362,491, respectively.

On February 28, 1991, the Cooperative signed a term sheet agreement with RUS, which allowed the Cooperative to defer its original principal and interest payments for five years. On February 28, 1994, an amendment to the agreement was signed which discontinued the deferment and the Cooperative began paying back its deferred principal and interest.

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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Agreements with mortgage lenders requires the Cooperative to maintain minimum financial covenant ratios of Tier and DSC of 1.25 and operating Tier and operating DSC of 1.10 (based on a best 2 of last 3 year average). During the calendar year ended December 31, 2012, the Cooperative failed to meet its financial debt covenants. On February 11, 2011, the Cooperative's board of directors passed a resolution to submit an application for rate increases to the LPSC in order to improve operating performance and return to compliance with its debt covenants. The rate increase application was filed in April 2011, was approved by LPSC on March 31, 2012, and became effective with the April/May 2012 billing, which allowed the Cooperative to meet its financial debt covenants for the calendar year ending December 31, 2013.

The following schedule is a summary of outstanding loans as of June 30, 2014 and 2013, respectively.

	<u>2014</u>	<u>2013</u>
RUS Notes:		
5% notes due from March 7, 2010 through January 31, 2027	1,184,848	1,574,826
Fixed interest rate (3.70-4.78%) notes due February 28, 2041	5,396,072	5,499,409
FFB Notes:		
Fixed interest rate (2.264 - 5.410%) notes due January 2, 2046	10,318,822	8,726,395
NRUCFC Notes:		
Fixed interest rate (2.10 – 7.025%) notes due August 31, 2011 Through March 1, 2027	<u>3,702,569</u>	<u>4,236,228</u>
Total	20,602,311	20,036,858
Less current maturities of long-term debt	<u>1,334,084</u>	<u>1,323,526</u>
Total long term debt	<u>\$ 19,268,227</u>	<u>\$ 18,713,332</u>

Substantially all of the Cooperative's utility plant is pledged as collateral under the various mortgage notes. Annual maturities of long-term debt for each of the next five years ending June 30 are as follows:

2015	\$ 1,334,084
2016	1,319,390
2017	1,137,201
2018	1,045,893
2019	1,018,510
Thereafter	<u>14,747,233</u>
	<u>20,602,311</u>

On November 11, 2010, the Cooperative's board of directors passed a resolution to apply to RUS for a loan in the amount of \$11,618,000 to finance for a term of 35 years its 2010-2013 year Construction Work Plan. On February 2, 2011, RUS approved the Cooperative's loan request to borrow up to \$11,618,000 for its 2010-2013 construction work plan. During the years ended June 30, 2014 and 2013, the Cooperative borrowed \$1,905,000 and \$1,200,000 on the 2010-2013 work plan from RUS, respectively.

On March 28, 2013, the Cooperative's board of directors passed a resolution to prepay retirement contributions of its retirement security pension plan with National Rural Electric Cooperative Association (NRECA) in the amount of \$1,504,604 in order to receive a 25% reduction in their payments along with a guarantee that the contribution rate would not increase for the next two years. The prepayment amount was borrowed from NRUCFC, with approval from RUS as "permitted debt" under the RUS loan contracts, and is estimated to result in significant savings over the next twenty years.

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

The NRUCFC loan funds were expended for purposes contemplated in the loan agreement on such loan. No long term loan fund advances from NRUCFC were received during the current year.

Note 6-Line of Credit

The Cooperative has a line of credit of \$2,500,000 with NRUCFC at June 30, 2014 and 2013, respectively, at a rate equal to the bank prime rate, plus one percent per annum (currently 2.90%). As of June 30, 2014 and 2013, \$450,000 and \$750,000 was owed on the line of credit, respectively. The Cooperative also has a line of credit with Co-Bank in the amount of \$2,000,000 for the years ended June 30, 2014 and 2013, respectively at a weekly variable rate set by Co-Bank (currently 2.91%). As of June 30, 2014 and 2013, \$0 and \$0 was owed on this line of credit, respectively.

Note 7-Deferred Debits and Other Assets

Following is a summary of amounts recorded as deferred debits as of June 30, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Deferred conversion fee	2,310	4,713
Hurricane Gustav Restoration (see Note 14)	632,380	632,380
Hurricane Isaac Restoration (see Note 14)	51,434	51,434
Preliminary survey & facility charges	9,505	26,568
RS Pension Prepayment (see Note 5)	<u>1,371,880</u>	<u>1,460,389</u>
	<u>\$ 2,067,509</u>	<u>\$ 2,175,484</u>

Note 8-Patronage Capital

At June 30, 2014 and 2013, patronage capital consisted of:

	<u>2014</u>	<u>2013</u>
Assignable	\$ 653,015	\$ 927,933
Assigned to date	15,574,044	14,411,799
Non-assignable non-operating	<u>787,184</u>	<u>988,992</u>
	<u>\$ 17,014,243</u>	<u>\$ 16,328,724</u>

Under the provisions of the Mortgage Agreement, until the equities and margins equal or exceed forty percent of the total assets of the Cooperative, the return to patrons of contributed capital is generally limited to twenty-five percent of the patronage capital or margins received by the Cooperative in the prior calendar year. The equities and margins of the Cooperative represent 42% of the total assets at June 30, 2014. No retirements of capital credits occurred in 2014 or 2013.

Note 9-Pension Plan

The Cooperative participates in the NRECA Retirement Security Plan (RS Plan), which is a multi-employer defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333. Unlike a single-employer plan, a multi-employer plan's assets are available to pay benefits of any plan participant and separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer could be used to provide benefits to employees of other participating employers.

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

The Cooperative makes annual contributions to the plan equal to the amounts accrued for pension expense. Total pension expense in these statements, which represented less than 5% of the total contributions made to the plan by all participating employers, for the years ended June 30, 2014, 2013, and 2012 was \$478,724, 535,253, and \$522,470, respectively. There were no significant changes that affect the comparability of the 2014 and 2013 contributions.

In the RS Plan, a “zone status” determination is not required and, therefore, not determined under the Pension Protection Act (PPA) of 2006. Additionally, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, The RS Plan was over 80% funded at June 30, 2014 and 2013 based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and can change as a result of plan experience.

The Cooperative also maintains a 401(K) plan for the benefit of all eligible employees. All employees are eligible to participate after meeting certain service and age requirements and may contribute up to 25% of compensation, with no contributions to be made on the Cooperative’s part.

Note 10-Commitment

The Cooperative was one of eleven member electric cooperatives of Cajun Electric Power Cooperative, Inc. (Cajun) and has executed a wholesale power agreement with Cajun’s successor, Louisiana Generating, LLC (LaGen), who purchased Cajun’s non-nuclear assets out of bankruptcy. Under this agreement, the Cooperative is committed to purchase its electric power and energy requirements from LaGen until the year 2025. In January and March 2000, the LPSC issued orders approving the member co-ops purchase power contracts with LaGen and the use of an automatic adjustment clause for the recovery of purchased power costs. However, in order to implement this clause the cooperatives needed to adjust their overall revenue requirements and rate designs. The Cooperative filed an application with the LPSC to redesign their rates and include the power cost adjustment clause. On June 2, 2000, the LPSC approved the Cooperative’s petition.

Note 11-Contingency

The Cooperative is involved in no lawsuits at the current time.

Note 12- Credit Risks

At various times during the year cash deposits with one banking institution exceeded the \$250,000 coverage limit of protection offered by the Federal Deposit Insurance Corporation. Management monitors the financial condition of the institution on a regular basis in order to minimize the potential risk. At June 30, 2014 and 2013, uninsured cash balances totaled \$286,665 and \$407,889, respectively. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of members comprising the membership base and their dispersion across the geographic area.

A major portion of the Cooperative’s workforce is covered by a collective bargaining agreement with the International Brotherhood of Electrical Workers Local 2286. This contract was negotiated for a four year term beginning January 1, 2014 through January 1, 2018.

Note 13- Postretirement Benefits Other Than Pensions

The Cooperative has implemented FASB ASC 715-60, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans*, which improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income.

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

The Cooperative sponsors a defined benefit postretirement plan that covers both directors and employees. The plan provides medical and dental insurance benefits. The postretirement plan is contributory, with retiree contributions equal to 15% of cost. The following table summarizes the benefit obligation, fair value of assets, and the funded status over the two-year period ending June 30, 2014:

	<u>2014</u>	<u>2013</u>
Benefit obligation at June 30	\$ (4,682,400)	\$ (3,685,200)
Fair value of plan assets at June 30	<u>4,719,681</u>	<u>4,214,135</u>
Funded status at June 30	<u>\$ 37,281</u>	<u>\$ 528,935</u>

The following provides the net periodic benefit cost, amount of contributions, and benefits payable from the plan are as follows:

Benefit cost	\$ 98,304	\$ 94,886
Employer contributions	81,093	79,046
Benefit payments	136,186	78,519

The following table provides the amount recognized in the statement of financial position as of June 30 of both years:

Prepaid benefit cost	\$ 4,719,681	\$ 4,214,135
Accrued benefit liability	(4,682,400)	(3,685,200)
Accumulated other comprehensive income	37,281	528,935

The Cooperative's postretirement benefit plan is over (under) funded with an accumulated benefit asset (obligation) of \$37,281 and \$528,935 as of June 30, 2014 and 2013, respectively. The plan assets, which are held in the Pointe Coupee Electric Membership Corporation Retiree Welfare Benefit Trust (an irrevocable trust), are invested in various mutual funds through Homestead Funds, Inc. The trust seeks a balanced diversification strategy where approximately 50 to 60% of the plan assets are invested in stock-based funds and 30 to 40% in bond based fund with a minimal amount in cash equivalent funds if necessary. As of June 30, the trust held the following investments:

Value Fund	\$1,796,361	\$ 1,444,819
Small Company Stock Fund	890,385	736,095
Short Term Bond Fund	1,521,140	1,491,230
International Value Fund	230,434	185,463
Short Term Government Securities Fund	<u>281,361</u>	<u>356,528</u>
	<u>\$4,719,681</u>	<u>\$ 4,214,135</u>

Adoption of ASC 715 resulted in adjustments to other comprehensive income for actuarial gains/losses, asset funding payments, and revaluation of the accumulated postretirement benefit obligation as listed in the following table:

Amounts initially recognized in other comprehensive income	\$ (528,935)	\$ (84,148)
Current year amounts recognized in comprehensive income:		
Net periodic benefit cost reclassification adjustments	136,186	78,519
Plan assets (gain)/loss	(641,732)	(523,306)
Actuarial (gain)/loss	<u>997,200</u>	<u>0</u>
Net Accumulated Other Comprehensive Income	<u>\$ (37,281)</u>	<u>\$ (528,935)</u>

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

Transition obligation recognized as a component of net periodic benefit cost	44,200	44,200
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The following table presents the allocation of net accumulated other comprehensive income not yet recognized as components of net periodic benefit cost:

Unrecognized transition obligation	\$ 46,300	\$ 90,500
Unrecognized (gain)/loss	<u>9,019</u>	<u>(438,435)</u>
Net Accumulated other comprehensive income	<u>\$ (37,281)</u>	<u>\$ (528,935)</u>

The estimated portion of net actuarial gain/loss (\$339,817) and the transition obligation (\$44,200) in accumulated other comprehensive income expected to be recognized as a component of net periodic benefits cost in the fiscal year ending June 30, 2015 is \$384,017. Plan assets in the amount of \$136,000 are expected to be returned to the employer within the next 12 month operating cycle for retiree costs. The cooperative expects to contribute \$263,100 into the trust in 2015.

Estimated benefits expected to be paid over the next five years ending June 30 are as follows:

2015	101,100
2016	113,500
2017	150,100
2018	142,500
2019	168,800
2020-2024	984,500

The assumptions used in the measurement of the company's benefit obligation are shown in the following table:

Weighted average assumptions as of June 30:

Discount rate	4.75%	5.75%
Expected return on plan assets	7.20%	5.20%

The measurement date used for the current valuations is June 30, 2014. For measurement purposes, an 8.00% annual rate of increase in the per capita cost of covered medical and 5.00% rate of increase for dental care benefits was assumed for 2015; the rate was assumed to decrease 0.5% per year for medical and 0% for dental to 5.0% per year for medical and dental by 2021 and remain at that level, thereafter.

Note 14 – Hurricanes Gustav & Isaac

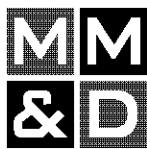
On September 1, 2008, Hurricane Gustav hit Louisiana as a Category 2 (one mile per hour short of a Category 3) hurricane and caused significant damage to the area and the Cooperative's electrical systems. The Cooperative's tri-parish region of Pointe Coupee, Iberville, and West Baton Rouge was hit particularly hard causing 100% power outages and considerable damages to the infrastructure. Costs to repair and replace the Cooperative's infrastructure totaled \$3,808,113 through the end of this fiscal year. Reimbursement from FEMA is based on a 90% coverage rate of which \$3,175,733 has been received in prior periods. Any costs not reimbursed by FEMA will be recovered by assessment on individual customer bills as allowed by order of the La. Public Service Commission. At this time, approval will be sought from RUS to account for the costs as a regulatory asset.

On August 29, 2012, Hurricane Isaac hit Louisiana as a Category 1 hurricane and caused damage and power outages to the Cooperative's electrical system. Costs to repair and replace the cooperative's infrastructure totaled \$514,102 of which \$444,615 is eligible for reimbursement from FEMA at a 75% coverage rate. Actual reimbursements received during the years ending June 30, 2014 and 2013 totaled \$56,611 and \$246,744, respectively. Any costs not reimbursed by FEMA will be capitalized and depreciated according to RUS guidelines.

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

Note 15 – Subsequent Events

Management has performed an evaluation of the Cooperative's activities through August 25, 2014, and has concluded that there are no other significant subsequent events requiring recognition or disclosure through the date and time these financial statements were available to be issued on August 25, 2014.



Major, Morrison & David

Certified Public Accountants

QUALITY • INTEGRITY • DEPENDABILITY

John L. Morrison III, CPA, CGMA, PC

Mark A. David, CPA, PC

John S. Disotell III, CPA, PC

Van P. Major, CPA (1951-2005)

**Independent Auditors' Report on Internal Control Over Financial Reporting
And on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

The Officers and Board of Directors
Pointe Coupee Electric Membership Corporation
New Roads, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Pointe Coupee Electric Membership Corporation (a Cooperative), which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of revenue and patronage capital, comprehensive income, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated August 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pointe Coupee Electric Membership Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pointe Coupee Electric Membership Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Pointe Coupee Electric Membership Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

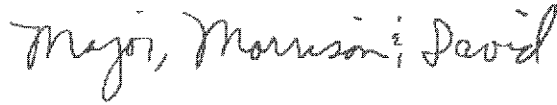
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

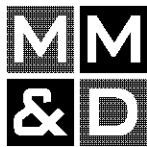
As part of obtaining reasonable assurance about whether Pointe Coupee Electric Membership Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Major, Morrison & David". The script is cursive and fluid.

Major, Morrison & David
New Roads, Louisiana
August 25, 2014



Major, Morrison & David

Certified Public Accountants

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John L. Morrison III, CPA, CGMA, PC

Mark A. David, CPA, PC

John S. Disotell III, CPA, PC

Van P. Major, CPA (1951-2005)

**Independent Auditors' Report on Compliance with Aspects of Contractual
Agreements and Regulatory Requirements for Electric Borrowers**

The Officers and Board of Directors
Pointe Coupee Electric Membership Corporation
New Roads, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Pointe Coupee Electric Membership Corporation (a Cooperative), which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of revenue and patronage capital, comprehensive income, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated August 25, 2014. In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2014, on our consideration of Pointe Coupee Electric Membership Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Pointe Coupee Electric Membership Corporation failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, § 1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Pointe Coupee Electric Membership Corporation's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Pointe Coupee Electric Membership Corporation's accounting and records to indicate that Pointe Coupee Electric Membership Corporation did not:

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

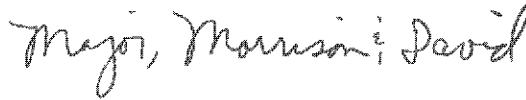
Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and

Comply with the requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, reading "Major, Morrison & David". The signature is written in a cursive, flowing style.

Major, Morrison & David
New Roads, Louisiana
August 25, 2014

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness (es) identified?

___yes Xno

Deficiency(s)in internal control identified not
considered to be material weaknesses?

___yes Xnone reported

Noncompliance material to financial statements noted?

___yes Xno

SECTION II - FINANCIAL STATEMENT FINDINGS

There were no current year findings.

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Ref. No.</u>	<u>Fiscal Year Finding Initially Occurred</u>	<u>Description of Finding</u>	<u>Corrective Action Taken</u>	<u>Planned Corrective Action/Partial Corrective Action Taken</u>
Section I – Internal Control and Compliance Material to the Financial Statements:				
13-1	2012	Technical default of RUS financial coverage ratios regarding mortgage loan agreements.	Yes	Reduction of expenses & LPSC approved rate increases implemented resulting in improved operating margins.

**POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Ref. No.</u>	<u>Description of Finding</u>	<u>Corrective Action Planned</u>	Name of Contact Person	Anticipated <u>Completed</u>
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Section I – Internal Control and Compliance Material to the Financial Statements:

There were no current year findings.